

AR30

PAN CANA
RESOURCES
LTD.
ANNUAL
REPORT
1980

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The Company

Pan Cana Resources Ltd. is an independent Canadian resource company that:

- explores for and produces oil and gas in Canada and the United States.
- holds an interest in a Nevada gold mine.
- has a subsidiary company that provides technical services to the geophysical industry.
- has a new management and exploration team.
- plans to significantly expand its oil and gas exploration in Canada and the United States in the coming years.
- has raised capital sufficient to accomplish its goals.
- is listed for trading on The Toronto Stock Exchange.

Highlights

Financial	1980	1979	% Change
Revenue	\$ 7,639,730	\$ 4,843,985	+ 58
Net Earnings	603,437	52,745	+ 1044
Net Earnings per Share	13¢	1¢	+ 1200
Cash Flow from			
Operations	2,962,719	640,824	+ 362
Cash Flow per Share	65¢	16¢	+ 306
Long-Term Debt	8,000,000	8,992,257	- 11
Total Assets	21,370,753	18,153,568	+ 18
Shares Outstanding	4,541,413	4,116,413	+ 10

Operations	1980	1979	% Change
Production			
Crude Oil, Bbls	122,800	116,070	+ 6
Natural Gas, Mmcf	1,975	1,733	+ 14
*Gold, Ounces	10,000 (est.)	7,422	+ 35
Reserves			
(Net After Royalty)			
Crude Oil, Bbls	1,361,800	1,181,700	+ 15
Natural Gas, Mmcf	19,363	14,026	+ 38
Gross Wells Drilled			
Oil	22	5	+ 340
Gas	22	3	+ 633
Dry and Abandoned	8	0	N/A
Total Drilled	52	8	+ 550

*The values correspond to calendar years.

Land	Gross Acres	Net Acres
Canada	266,207	59,162
U.S.A.	8,793	1,945
Total	275,000	61,107



The President's Report

One year ago Pan Cana substantially reorganized its operations with a new management and exploration team. This past year increases in both the profitability and activity of your Company have been recorded. This annual report is the first to be issued under the Company's new name — Pan Cana Resources Ltd. — a name which reflects the broad and expanding base of our operations throughout North America.

Our short-term objective a year ago was to become an aggressive oil and gas exploration and production company — this has been achieved.

Our long-term objective is to enlarge the corporate assets and become a broadly-based independent oil and gas exploration and production company in Canada and the United States. The Company has a renewed commitment to the following corporate goals:

- To concentrate on exploration and development of oil and gas reserves in Canada and the United States.
- To expand current activities in the United States by taking advantage of major reserve development opportunities.
- To continue building up the management and exploration group to ensure that the quality and number of Company generated prospects are optimized.
- To double the Company's asset value by the end of 1982.



The 1980 fiscal year was characterized by steady expansion in exploration, prospect development, gold production and funding. The Company's earnings for the year ended September 30, 1980, rose to \$603,437, equal to 13¢ a share. This is a significant increase in our earnings over fiscal 1979 which were \$52,745, or one cent a share. Such improvement is primarily the result of increased production and sales of oil and gas, of higher prices for that oil and gas, of a 20% increase in sales from our geophysical division, and the initial revenues from our gold mining division.

The past year's exploration and development programs were successful in boosting Pan Cana's reserves to 1.36 million barrels of oil and 19.36 billion cubic feet of natural gas. The Company's land holdings have been increased to approximately 275,000 gross acres, located in western Canada and the southwestern United States. Increases in activities are also reflected in the generation of 45 new exploratory prospects, accelerated exploration expenditures in the United States and the drilling of 52 wells with a success ratio of 85%.

The success of our exploration and development program is shown by the fact that of a record 52 new wells drilled, 22 oil wells and 22 gas wells were completed for production; 8



were dry holes. Today, we are also involved in some 52 prospects in Canada and 12 new prospects in the United States.

Our most important discovery this past year was oil and gas on the Atlee prospect in southern Alberta. Regular oil production from the discovery wells began in July. Since then, 12 additional development wells have been drilled on the prospect.

In the United States, the Company is active in two deep wells in Oklahoma, both of which are awaiting completion. Results to date indicate that both wells are prospective of gas, but further testing will be needed before their potential can be established.

Pan Cana owns a 60% interest in the net profits of a joint venture gold mine near Elko, Nevada. When the Company has received \$1.5 million from net profits, this interest will reduce to 50%. This calendar year the joint venture produced in excess of 10,000 ounces of gold and the Company received its initial contribution to revenues from the property.

The Company's geophysical division, Western Electronic Systems, has traditionally contributed strongly to Pan Cana's earnings, and continued to add sizable earnings in 1980. Further growth is dependent on the level of future activity in the exploration industry.

The Company was also successful in expanding its capital base by placing two separate drilling funds with investors. PanCana-79 was placed privately in November, 1979, at the maximum subscription of \$3.5 million. Pan Cana-80, a public offering, was fully subscribed for \$8.5 million, closing in July, 1980. In addition, subsequent to fiscal year end, an issue of \$8.15 million in convertible subordinated debentures was placed privately. The proceeds from these debentures have been used to reduce bank indebtedness, which will save the Company considerable interest charges, and to facilitate expansion of U.S. operations. The fact that Pan Cana's new financing was obtained from outside investors is a significant mark of confidence from the financial community which will be important in ensuring the funding of expansion in the years ahead.

While Pan Cana has the benefit of being Canadian-owned and Canadian-controlled, our management shares the concern of all resource companies that unless an early resolution to the disputes between Alberta and Ottawa is found, the petroleum industry's future will be uncertain and billions of investment dollars will be placed at risk.

At a time when both levels of government should be taking all possible steps to encourage oil and gas exploration companies to solve Canada's energy needs, they seem determined to produce the opposite result. We must develop eastern Canadian and export markets for our shut-in natural gas. We must increase wellhead prices of oil and gas to world levels to attract capital and stimulate exploration in Canada.



The Management

From left to right: Neil L. Jennings, Corporate Secretary; Del F. Zingle, Vice President — Finance and Treasurer; John M. Gareau, President and Chief Executive Officer; Ed Chwyl, Vice President — Operations; and Kenneth P. Murphy, Vice President — Land.



More importantly, a larger percentage of the wellhead price must find its way back into producers' revenues, rather than into governments' coffers.

While Pan Cana may benefit from the grants offered in Ottawa's October budget, the proposed Federal production tax may cut into oil and gas earnings. Ironically and regrettably, the overall impact of these moves will probably be to bring Pan Cana higher cash flows and lower profits.

Pan Cana will continue to explore in Canada and to aggressively seek out new opportunities in the United States, where government policies encourage the exploration for oil and natural gas, and where the markets for these products are more readily available — at markedly higher prices. Within the next calendar year we plan to open an exploration office in the United States.

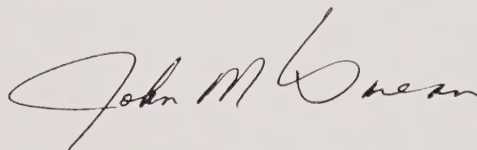
Despite these concerns, I am confident that our plans for growth will be accomplished on schedule. Maintaining this growth is the responsibility of every one of the Company's 25 employees. It has been my particular pleasure this past year not only to see this responsibility fulfilled, but exceeded.

Our strong early showing has been the direct result of melding an experienced management team, an excellent exploration group, and a skilled support staff. The five executives who are primarily responsible for the Company's direction have helped build and manage successful companies in the past. They have come together to do the same at Pan Cana.

I am especially gratified to report that our entire organization operates as a team. Communication among our people — all our people — is both open and continuous. Our entire staff has combined their instincts and experience to achieve a single objective — performance.

On behalf of the Pan Cana staff and shareholders, I would like to acknowledge the services of J. E. Craig Wallace, C.A., who, since the end of the year has tendered his resignation as a Director, and of Duncan J. Jessiman, Q.C., who has resigned as Co-Chairman of the Company. Both gentlemen have rendered valuable contributions to the growth of the Company. Mr. Jessiman will continue as a Director of the Company.

On Behalf of the Board of Directors



John M. Gareau
President and Chief Executive Officer

December 19, 1980



The Geologists

From Left to Right: Mark T. Oliver, Paul G. Tizzard, Bryan A. Grams.

NORTHWEST TERRITORIES



SASKATCHEWA

ALBERTA

BRITISH COLUMBIA

UNITED STATES

Exploration in Canada

Over the past year, 37 exploration prospects were added to the Company's inventory in Canada. Most of these prospects are located in Alberta where 93% (56,891 acres) of Pan Cana's acreage is held. Of 38 wells drilled in Canada, 12 were oil wells, 20 were gas wells, and 6 were dry holes.

Significant discoveries during the fiscal year, and to date, include:

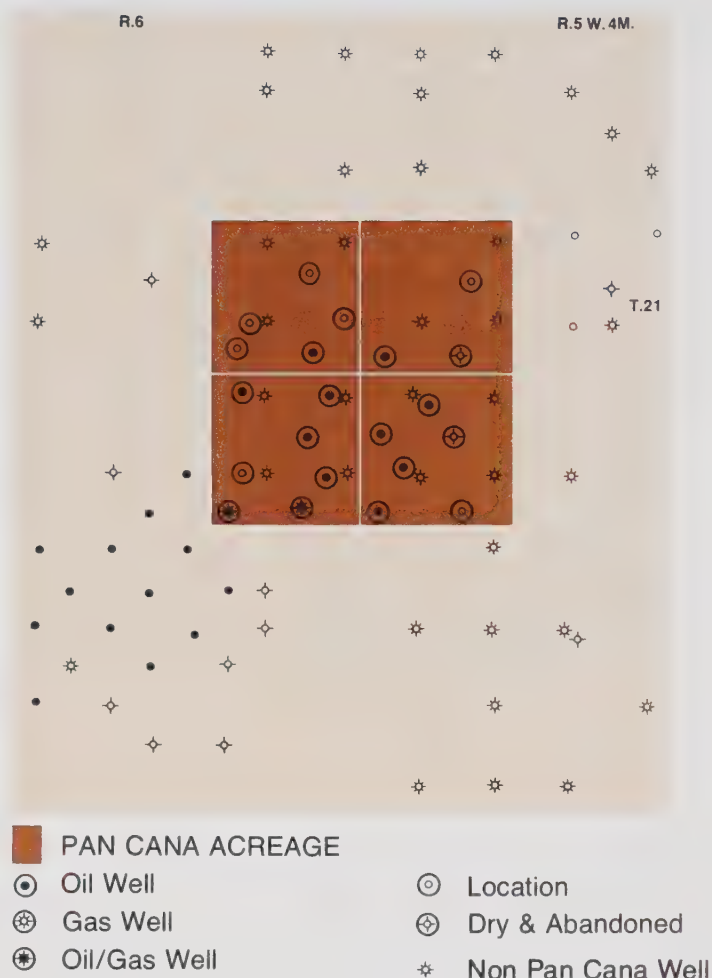
- Oil and gas on the Atlee prospect in southeastern Alberta, which now has nine oil wells and one gas well on production and two wells awaiting completion.
- Oil on both the Clairmont and Ravine prospects.
- Oil and gas in three wells on the Bindloss prospect.

Pan Cana has also participated in four additional prospects which have good hydrocarbon indications. Further information will be released during the next several months as developments permit.

In 1980, the Company increased its landholdings in Canada to some 266,207 gross acres (59,162 net acres), an increase of 40% of net holdings over 1979.

Pan Cana is currently working on some 52 exploratory prospects in Canada.

The success achieved in our Canadian exploration program in 1980 is very gratifying to the Company. Significant discoveries have been made on prospects generated by Pan Cana's exploration team. These, and other similar successes achieved on prospects generated by associates have served to enlarge the Company's production base. This enlarged base will enable Pan Cana to increase both its percentage interest and volume of prospects over a much larger exploration panorama in North America.

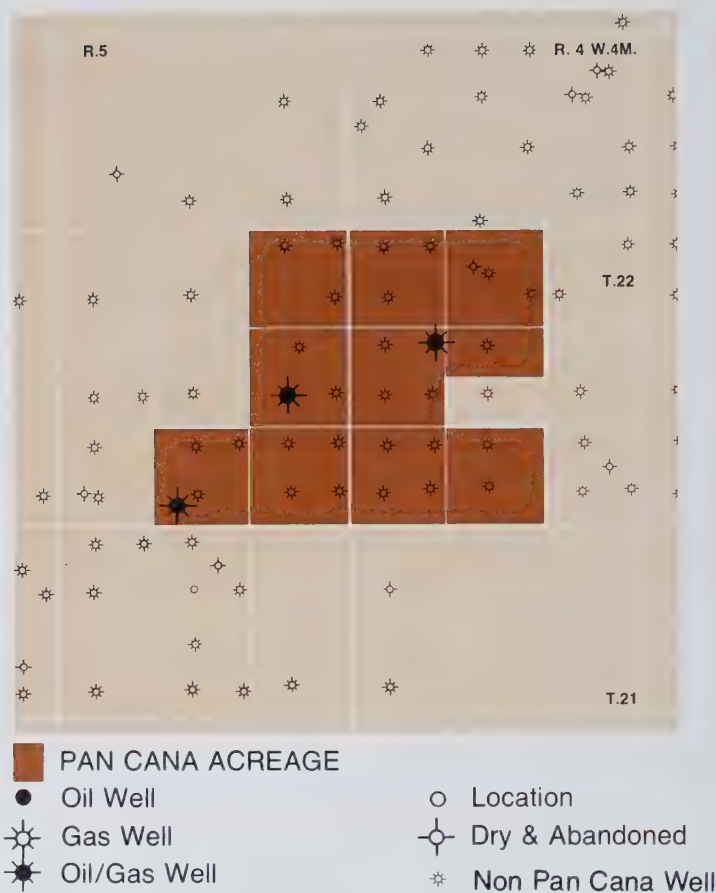


Atlee

Early in 1980, significant oil and gas discoveries were made on this prospect which Pan Cana operates and owns an average 7.4% interest in the 2,560 gross acres.

A total of fourteen wells have been drilled to date. Of these, nine oil wells and one gas well are currently on production and two wells are awaiting completion. Further development drilling is planned with six additional wells to be drilled within the next three months.

Production rates from the oil wells is currently 30 barrels per day per well as allowed under existing provincial regulations, although individual well capacities are as high as 300 barrels daily on natural flow. Secondary and tertiary schemes are being studied which, if implemented, will enhance total recoverable reserves of oil, remove the current restriction on production rates and result in higher oil prices.



Ravine

Pan Cana, as operator, drilled the initial test well at 9-29-54-9 W5M. The Company holds an average 3.2% interest in 2,400 gross acres on this prospect which is located 65 miles west of Edmonton. The well resulted in an oil discovery in the Pekisko zone of the Mississippian Age at approximately 6,000 feet and was brought into production in July. The well initially flowed 100 barrels of light gravity crude daily on a restricted choke.

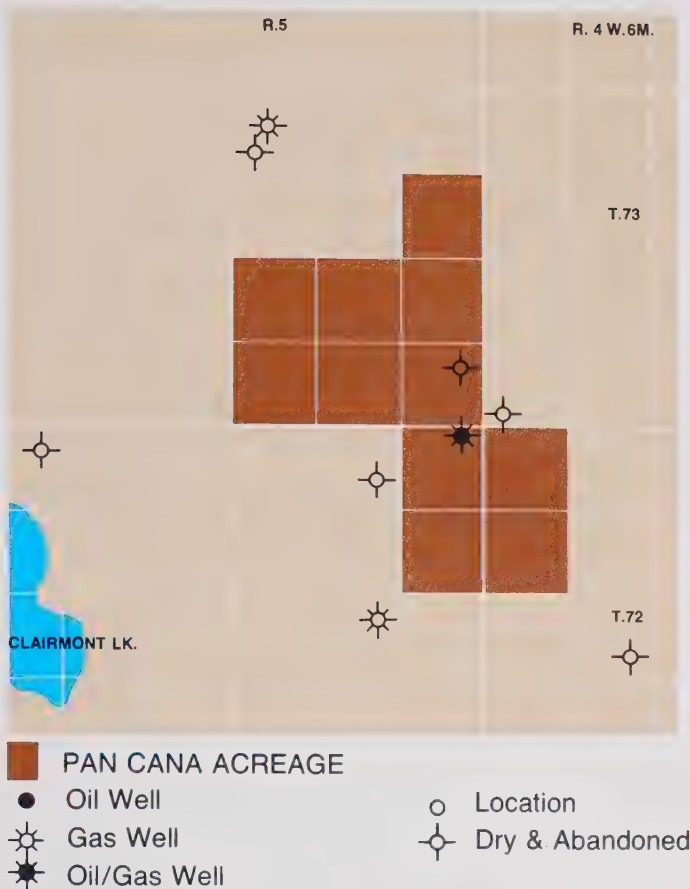
While production testing, water problems developed and production was suspended. A program to rework the well to control the water flow has been completed. We are currently waiting on a pumping unit to resume production from the well.

One step-out well was drilled and abandoned when it failed to encounter the productive formation. Further development on this prospect is anticipated if production from the 9-29 well is sustained.

Bindloss

This 9.5 section prospect located 150 miles southeast of Calgary was acquired by farmin whereby Pan Cana committed to drill two Mississippian tests to an approximate depth of 3,200 feet with continuing options to drill to earn interests in the entire acreage block. Assuming that all option wells are drilled, Pan Cana will have earned an average 12.2% interest in 6,080 acres.

To date, three earning wells have been drilled, all of which are dual oil and gas discoveries. Plans are proceeding to place the wells on production immediately. Further option wells will be drilled in the near future.

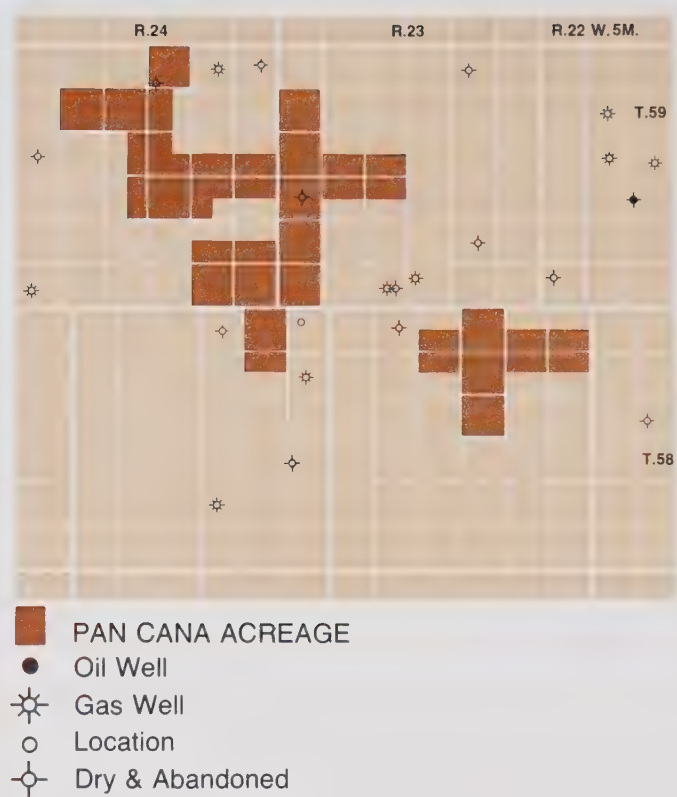


Clairmont

Oil was discovered in the Triassic zone at a depth of approximately 6,000 feet in the first well drilled at 15-36-72-5 W6M. This well earned an interest in a four-section block. As a result of this discovery, the partners in the Clairmont project purchased an offsetting seven-section licence. Pan Cana now owns an average 4.9% interest in 7,040 acres. This prospect is located 240 miles northwest of Edmonton.

While on test, the oil discovery produced encouraging quantities of oil. However, water production problems were also encountered. The partners agreed to rework the well in an effort to shut off the water, which is believed originating from a wet zone below the oil-bearing sand. The reworking operations have not yet been completed.

A second well was drilled on the licence, but the prospective horizon proved tight and the well was abandoned. In spite of the dry hole this area is still considered to have promise both for Triassic oil and hydrocarbons in deeper horizons. Seismic surveys will be carried out to delineate targets in other zones.



Colt

This prospect consists of three petroleum and natural gas licences and two leases which were acquired by farmin and purchase at Crown Sales. Pan Cana owns an 11.5% average interest in the 16,640 acres located 160 miles northwest of Edmonton.

The participating group drilled an obligatory test well on one of the leases at 7-34-58-24 W5M but the well failed to encounter productive sands. Seismic surveys have been undertaken and it is expected that two additional wells will be drilled in 1981.

This is a most attractive prospect because of the large land spread and multiple target horizons in strata of the Cretaceous and Devonian Ages.

NEBRASKA

COLORADO

- SHERIDAN COUNTY
- TREGO COUNTY
- NESS COUNTY

KANSAS

- WOODSON COUNTY
- Wichita

OKLAHOMA

- NORTH BESSIE
- Oklahoma City
- ARC-CHIC

NEW MEXICO

- LEA COUNTY

- Dallas

TEXAS

- STEWARTS MILL
- SIMSBORO NORTH

- Houston

MEXICO

Gulf of Mexico

- PAN CANA PROSPECTS

Exploration in the United States

The Company invested over \$1.1 million in oil and gas exploration in the United States in fiscal 1980. Because of world level prices for new oil and comparable prices for deregulated gas, as well as ready markets for both products, Pan Cana has budgeted almost \$7 million for oil and gas exploration in fiscal 1981. The economic impact of discoveries in the United States is clearly demonstrated in the table below.

Comparison of producer wellhead pre-tax netback of newly discovered oil and gas in Canada versus the United States (in Canadian Dollars)

	<u>Canada</u>	<u>United States</u>
Crude Oil Per Bbl	\$7.50	\$26.75
Natural Gas Per Mcf	\$1.10	\$2.40-\$5.00*

**This \$5.00 figure represents deregulated gas below 15,000 feet.*

In fiscal 1980 the Company drilled 14 wells (through its wholly-owned subsidiary, PanCana Industries, Inc.) resulting in 10 oil wells, 2 wells awaiting completion and 2 dry holes.

The Company expects to increase its United States exploration and is developing strong relationships with other companies to provide broader exposure, particularly in the southcentral states. To this end, Pan Cana has taken a 35% participation in financing an exploration group based in Midland, Texas, which participation gives the Company the right of first refusal on any prospects generated or acquired by the group.

The Company has also taken a one-third participation in a lease acquisition program in west Texas, and has joined with others in acquiring leases in Louisiana.

In Kansas, Pan Cana participated in seven separate prospects comprising 6,920 acres in Sheridan, Ness and Trego Counties. Four wells have been drilled; two have been cased and are awaiting completion, and two are dry holes. After completing the interpretation of seismic data over the 3 undrilled prospects, the partners will decide on the next exploration steps.

Of particular importance in 1980 was the participation in two potentially significant prospects in Oklahoma — Arc-Chic and North Bessie.





 PAN CANA ACREAGE

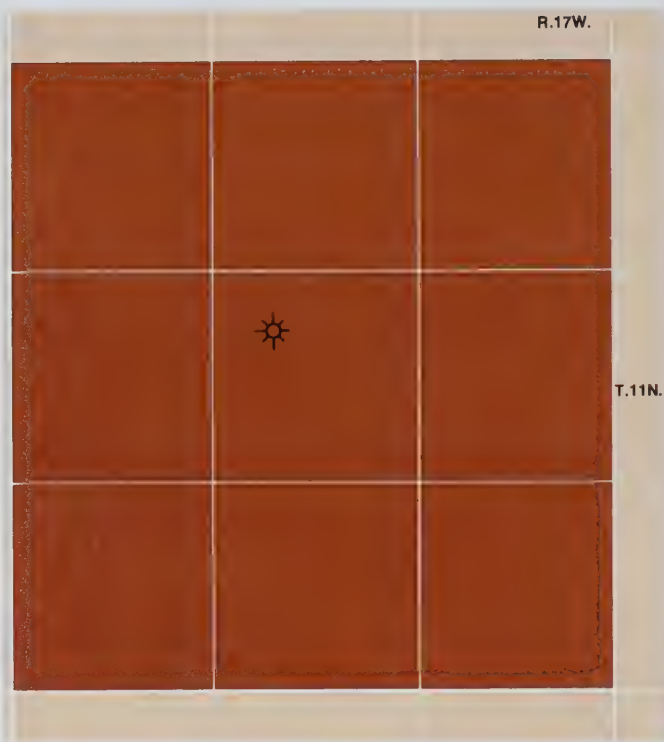
 Gas Well

 Location

 Dry & Abandoned

Arc-Chic

This natural gas prospect is located in Grady County, Oklahoma, approximately 50 miles southwest of Oklahoma City. Pan Cana owns a 7.38% interest in 3,840 acres. On the basis of intermediate logs and a drilling break, the lower Britt formation in this well appears to be prospective of gas. The well, which is currently drilling below 15,000 feet, is expected to be drilled to a total depth of 15,800 feet in the Springer formation. If this well is productive it can be placed on production immediately. If additional gas is discovered below 15,000 feet, it will be classified as deregulated gas, which could sell for more than \$6.00(U.S.)/Mcf.



 PAN CANA ACREAGE

 Gas Well

North Bessie

This natural gas prospect is located in Washita County, Oklahoma, approximately 100 miles west of Oklahoma City. Pan Cana owns a 3.125% interest in 5,718 acres. The initial well has been drilled to a total depth of 17,500 feet and, because of encouraging hydrocarbon indications on logs, casing has been run in the well to total depth. The Company is awaiting completion of the well by the operator and results are expected by the end of 1980.

Some of the zones being tested could result in the production and sale of deregulated gas with resulting higher price levels.

Drilling, Production and Reserves

Drilling activity increased dramatically compared to 1979. This year Pan Cana participated in a record 52 wells resulting in 22 oil wells, 22 gas wells and 8 dry holes. In the first two months of fiscal 1981 Pan Cana has participated in an additional 13 wells. These have resulted in 6 oil wells, 4 gas wells and 3 dry holes.

The Company's share of oil production was 122,800 barrels, an average rate of 336 barrels per day. This production level is a 6% increase over last year.

The Company's share of gas production was 1,975 Mmcf, an average rate of 5,416 Mcf per day. This production level is a 14% increase over 1979.

In Canada, the Company's oil and gas operations are located in Alberta, Saskatchewan and Manitoba. In the United States, production operations are located in Kansas, New Mexico and east Texas. Approximately 60% of the Company's oil production and 75% of the gas production is derived from Canada.

The Company's share of crude oil and natural gas reserves (net after royalty) at the end of fiscal 1980 was 1,361,800 barrels and 19,363 Mmcf, respectively. These reserves were estimated by Kloepper Coles Nikiforuk Pennell Associates Ltd., an independent consulting engineering firm based in Calgary. These reserves show an increase of 15% and 33% for crude oil and natural gas, respectively, compared to an earlier independent evaluation. The reserves tabled below give effect to the October 28, 1980 federal budget.

Company Reserves Effective October 1, 1980

	Proven	Proven Plus Probable
Crude Oil, Bbls		
Canada	974,900	1,056,200
U.S.	280,100	305,600
Total	1,255,000	1,361,800
Natural Gas, Mmcf		
Canada	16,904	18,062
U.S.	1,226	1,301
Total	18,130	19,363

- (1) Evaluated by Kloepper Coles Nikiforuk Pennell Associates Ltd., Calgary, Alberta.
- (2) Company reserves are after deducting all royalties and overriding royalties.



Other Operations

Gold Property — Nevada, United States

PanCana Industries, Inc., a wholly-owned subsidiary of Pan Cana, is a joint venturer in 6,437 acres of unpatented lode mining claims in Eureka and Elko Counties, Nevada. At present, mining operations are under way on 120 acres of this large block.

The joint venture partners plan to mount a major exploration program in 1981 to examine and evaluate a further portion of the lands and identify additional ore bodies.

Pan Cana owns a 60% interest in net profits until a total of \$1,500,000 (U.S.) has been received by Pan Cana from the operation. The Company's interest then reverts to 50%. This is expected to occur in 1981.

During 1979, 7,422 gross ounces of gold were produced and sold at an average of \$342 (U.S.) an ounce. During the 1980 calendar year, the joint venture is expected to produce and sell approximately 10,000 ounces at an estimated average price of \$650 (U.S.) per ounce. Future operations are anticipated to continue at the 1980 levels or to increase slightly.



Gold at the Elko mine is extracted by a heap leaching process. Ore is strip mined and stacked on massive leaching pads which are sprinkled with a sodium cyanide solution. The pregnant solution with the dissolved gold is collected and circulated through contact towers of activated charcoal where the gold molecules are adsorbed by the charcoal. The gold molecules are transferred into an electrolytic cell by circulating concentrated cyanide solution through the gold-laden charcoal. The gold is plated onto expendable cathode material in the electrolytic cell, then fluxed and smelted into gold bars of 900 fineness.

Leaching is carried out only during the warmer months. The winter cold prevents the use of the leaching pads, although stripping and mining continue throughout the winter.

Western Electronic Systems

Western Electronic Systems distributes and services geophysical and other electronic equipment from an office and service centre in southeast Calgary. The highly skilled and experienced technical group has built a reputation for excellence in providing geophysical equipment repair and service, including service in the field.

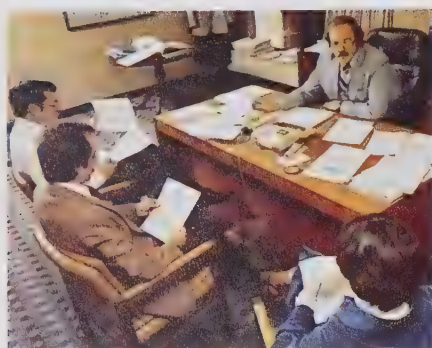
The Division represents several leading manufacturers of sophisticated equipment. Under distribution agreements, Western Electronic Systems sells, repairs and maintains geophysical equipment manufactured by Texas Instruments, Inc. and the Input-Output Corp. of the United States. Specialized electronic controls are sold and serviced for industries other than oil and gas under a distribution agreement with Sandtron Automation Limited whose products are devices used for timing and counting.

Western Electronic Systems has been part of Pan Cana for more than ten years and has contributed consistently and significantly to profits. Activity tends to vary with the general level of exploration activity in the oil and gas industry since the major part of the Division's business is related to seismic exploration in the field.



	Revenue	Contributions To Earnings
1976	\$ 276,320	\$ 58,841
1977	574,229	150,576
1978	1,160,316	352,283
1979	928,921	261,624
1980	1,234,181	310,117

Financial Review



	1980	1979
Revenues	\$7,639,730	\$4,843,985
less:		
Operating Costs	6,770,633	5,222,958
Earnings (Loss) Before Tax	869,097	(378,973)
Net Earnings	603,437	52,745
per Share	13¢	1¢
Cash Flow from Operations	2,962,719	640,824
per Share	65¢	16¢
Common Shares Outstanding	4,541,413	4,116,413
(Total of "A" and "B")		
Working Capital	249,981	811,080
Shareholders' Equity	8,710,251	6,948,064
Long Term Debt	8,000,000	8,992,257
Return on Capital	10%	1%
Return on Equity	7%	1%
Debt/Equity Ratio	91%	129%

Earnings and Cash Flow

Net earnings for 1980 amounted to \$603,437 (13¢ per share), a substantial increase over the previous year when net earnings were \$52,745 (1¢ per share). Cash flow from operations rose to \$2,962,719 (65¢ per share), an increase of 362% over \$640,824 (16¢ per share) in 1979.

Revenues and Expenses

Total revenues were an aggregate of \$7,639,730, up 58% over last year's \$4,843,985. This figure includes \$283,936 as the Company's share of the net profits from the gold mining joint venture.

The increase in oil and gas revenues can be attributed to increased sales volumes of oil and gas and to higher wellhead prices. In Canada, the Company's average wellhead prices at fiscal year end for natural gas increased to \$2.65 per Mcf from last year's \$2.10. Oil prices similarly increased to \$16.50 per barrel from \$13.50. In the United States, natural gas prices rose from \$1.90 to \$2.25 per Mcf and oil prices rose from \$22.00 to \$26.00 per barrel.

Increases in general and administrative expenses, depletion and depreciation, and operating expenses were commensurate with increases in the Company's scope of activities.

Changes in Financial Position

Working capital, the excess of current assets over current liabilities, decreased to \$249,981 from \$811,080 in 1979. This decrease is mainly due to the sale of the Company's real estate holdings in California, and the use of the proceeds to reduce long term debt. Accounts receivable have increased by more than three times due to larger receivables from current production income and joint venture partners. Short-term bank borrowings increased due primarily to cash required for increased exploration.



Major Financial Transactions

During the 1980 fiscal year, Pan Cana placed two separate drilling funds with investors:

- PanCana-79 was placed privately and closed in November, 1979 at \$3.5 million.
- Pan Cana-80, a public offering sold through Richardson Securities of Canada and Pemberton Securities Limited, was fully subscribed for \$8.5 million by July, 1980.

The Company also issued convertible subordinated debentures in the aggregate principal amount of \$8.15 million following the end of the fiscal year. These debentures were placed privately by First Marathon Securities Limited.

Information on Capital Stock

Pan Cana has two classes of common shares — Class “A” Common Shares and Class “B” Common Shares. These shares are listed for trading on The Toronto Stock Exchange.

The two share classes were created by an amendment to the Company’s Memorandum of Association effective November 20, 1979 when the authorized share capital made up of 9,450,000 common shares was converted to 4,725,000 Class “A” Common Shares and 4,725,000 Class “B” Common Shares without nominal or par value. This amendment also increased the authorized capital of the Company to 24,725,000 Class “A” Common Shares and 24,725,000 Class “B” Common Shares. Both classes of shares rank equally in all respects save and except voting rights. The Class “A” Common Shares have a restricted voting right attached.

The table below sets forth the reported volume of trading and high and low prices for the Class “A” Common Shares and the Class “B” Common Shares traded on The Toronto Stock Exchange since December, 20, 1979, and the common shares of the Company prior to that date.

Price Range on The Toronto Stock Exchange

		Common Shares					
		Share Volume	High \$	Low \$			
1979 (Calendar Year)							
1st Quarter		110,454	1.68	1.16			
2nd Quarter		162,318	1.89	1.25			
3rd Quarter		546,777	4.25	1.65			
4th Quarter (to December 20)		327,862	4.35	2.75			
		Class “A” Shares			Class “B” Shares		
		Share Volume	High \$	Low \$	Share Volume	High \$	Low \$
1979							
December 20-31		3,500	4.10	3.80	2,800	3.90	3.80
1980 (Calendar Year)							
1st Quarter		267,469	8.00	3.50	197,137	7.00	3.50
2nd Quarter		104,473	6.625	4.25	94,088	6.50	4.20
3rd Quarter		225,111	9.25	5.00	130,580	9.25	5.00
4th Quarter (to October 31)		37,567	8.875	6.50	31,068	9.00	7.00

Consolidated Balance Sheet

Assets

	September 30	
	1980	1979
Current Assets		
Cash	\$ 27,916	\$ 11,969
Accounts receivable	2,964,912	808,780
Inventories	105,516	89,465
Land held for re-sale, at cost	—	747,545
Prepaid expenses	8,399	21,203
	<u>3,106,743</u>	<u>1,678,962</u>
Fixed Assets at cost less accumulated depreciation and depletion (Note 2)	18,233,328	16,350,189
Other Assets	30,682	124,417

On Behalf of the Board of Directors



Director



Director

<u>\$21,370,753</u>	<u>\$18,153,568</u>
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Liabilities

	September 30	
	1980	1979
Current Liabilities		
Bank indebtedness (Note 3) . . . \$	682,820	\$ 385,000
Accounts payable	2,173,942	474,134
Income taxes	—	8,748
	2,856,762	867,882
Deferred Revenue	210,481	116,406
Long-Term Debt (Notes 3 and 4)	8,000,000	8,992,257
Deferred Income Taxes	1,593,259	1,228,959
	12,660,502	11,205,504

Shareholders' Equity

Capital Stock (Note 5)

Authorized- Common Shares

1980: 24,725,000 Class "A"

24,725,000 Class "B"

1979: 9,450,000 common shares

Issued

2,308,206 Class "A" **3,263,110** —2,233,207 Class "B" **2,891,861** —

4,116,413 common shares — 4,996,221

Contributed Surplus **1,591,196** 1,591,196**Retained Earnings** **964,084** 360,647**8,710,251** 6,948,064

\$21,370,753 **\$18,153,568**

Consolidated Statement of Earnings

	Year Ended September 30	
	1980	1979
Revenue	\$7,639,730	\$4,843,985
Costs and Expenses		
Cost of sales and direct operating costs	3,109,695	2,305,153
General and administration . . .	723,589	537,734
Depreciation and depletion . . .	1,594,058	1,053,897
Interest on long-term debt . . .	1,284,440	1,232,615
Interest — other	58,851	93,559
	6,770,633	5,222,958
Earnings (Loss) Before Tax And Extraordinary Item	869,097	(378,973)
Income Taxes (Recovery)		
Current	37,360	10,920
Deferred	436,300	(283,535)
Alberta Royalty Tax Credit . . .	(136,000)	(102,953)
	337,660	(375,568)
Earnings (Loss) Before Extraordinary Item	531,437	(3,405)
Extraordinary Item		
Tax benefit resulting from realization of losses carried-forward	72,000	56,150
Net Earnings	\$ 603,437	\$ 52,745
Earnings Per Share		
Before extraordinary item	12¢	—
Net earnings	13¢	1¢

Consolidated Statement of Changes in Financial Position

	Year Ended September 30	
	1980	1979
Working Capital Derived From		
Operations	\$2,962,719	\$ 640,824
Sale of fixed assets	168,247	897,167
Increase in long-term debt	100,000	—
Issue of capital stock	1,158,750	—
Other	187,810	116,406
	<u>4,577,526</u>	<u>1,654,397</u>
Working Capital Applied To		
Purchase of fixed assets	4,046,368	1,594,929
Decrease in long-term debt	1,092,257	830,743
Other	—	9,844
	<u>5,138,625</u>	<u>2,435,516</u>
Decrease in Working Capital	561,099	781,119
Working Capital, at		
beginning of year	<u>811,080</u>	<u>1,592,199</u>
Working Capital, at		
end of year	<u><u>\$ 249,981</u></u>	<u><u>\$ 811,080</u></u>

Consolidated Statement of Retained Earnings

	Year Ended September 30	
	1980	1979
Retained Earnings, at		
beginning of year	\$ 360,647	\$ 307,902
Net Earnings	<u>603,437</u>	<u>52,745</u>
Retained Earnings, at		
end of year	<u><u>\$ 964,084</u></u>	<u><u>\$ 360,647</u></u>

Notes to Financial Statements

1. Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries. All subsidiaries are wholly-owned.

(b) Foreign Currency Translation

Amounts in U.S. currency have been translated to Canadian dollars as follows:

- (i) Current assets and current liabilities, at the rate of exchange in effect as at the balance sheet date;
- (ii) Fixed assets and long-term debt on the basis of rates of exchange prevailing in the month of acquisition or transaction;
- (iii) Revenue and expenses (excluding depreciation and depletion which are translated at the same rates as the related assets), at the average rate of exchange for the year.

(c) Depreciation

Depreciation, other than on petroleum and natural gas equipment, is provided on a straight-line basis at rates which will amortize the cost of the assets over their estimated useful lives recognizing residual values where appropriate.

(d) Oil and Gas

The Company follows the full-cost method of accounting for oil and gas operations whereby all costs, including overhead expenses incurred in exploring for and developing oil, gas and related reserves are capitalized. These costs are amortized using the unit of production method based on estimated proven recoverable reserves. Depreciation of petroleum and natural gas equipment is similarly provided on the unit of production method.

The accumulated costs of Canadian and United States oil and gas operations are segregated into separate cost pools and amortization is calculated separately.

(e) Mining

All costs of exploration and development, including overhead expenses, are capitalized. Revenue earned during the course of exploration and development is credited against accumulated costs. For producing mines, net costs are amortized by the unit of production method based on estimated proven recoverable reserves. The costs of unsuccessful mining ventures are charged to earnings.

(f) Current Maturities of Long-Term Debt

Where long-term debt is specifically secured by charges on revenue producing assets and it is anticipated that future repayments of the debt will be made out of the future revenue from the assets, no part of the debt is classified as a current liability. With respect to other long-term debt, principal payments due within twelve months of the balance sheet date are classified as current liabilities.

(g) Inventories

Inventories are valued at lower of cost and net realizable value.

(h) Joint Venture Accounting

A portion of the Company's exploration and production activities related to oil and gas is conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

The Company's investment in the gold mine joint venture is accounted for by the equity method.

(i) Earnings Per Share

Fully diluted earnings per share are not shown when the exercise of options, warrants, or issue of capital stock would be anti-dilutive.

2. Fixed Assets

	1980			1979
	Cost	Depletion & Depreciation	Net	Net
Petroleum and natural gas properties	\$21,757,212	\$ 4,445,654	\$ 17,311,558	\$14,993,859
Mineral properties	1,221,640	400,924	820,716	1,221,640
Other	315,650	214,596	101,054	134,690
	<u>\$23,294,502</u>	<u>\$ 5,061,174</u>	<u>\$18,233,328</u>	<u>\$16,350,189</u>

3. Assets Subject to Lien or Pledge

The bank indebtedness is secured by a general assignment of accounts receivable and a floating charge debenture. This debenture requires the approval of the bank prior to the payment of any dividend. The Company's oil and gas properties are charged to secure the oil and gas production loans.

4. Long-term Debt

	1980	1979
Canadian oil and gas production loans, interest at 1.25% (1.5% 1979) over prime rate, payable in varying installments to 1987	\$8,000,000	\$7,900,000
United States oil and gas production loan, interest at 2% over prime rate, payable in varying installments to 1981 (\$950,541 U.S.)	—	1,092,257
	<u>8,000,000</u>	<u>8,992,257</u>
Less current maturities (note 1(f))	—	—
	<u>\$8,000,000</u>	<u>\$8,992,257</u>

5. Capital Stock

(a) Authorized Capital				
As at September 30, 1979, the Company's authorized capital stock consisted of 9,450,000 common shares of no par value. Effective November 20, 1979, the Company reclassified, converted and increased its authorized capital stock to 24,725,000 each of Class "A" and Class "B" Common Shares without nominal or par value, which may be issued for a maximum aggregate consideration of \$50 million.				
(b) Changes in Capital Stock				
	Common Stock		Consideration	
Balance as at September 30, 1979	4,116,413		\$4,996,221	
Shares issued for cash	350,000		787,500	
Balance as at November 20, 1979, before reclassification	4,466,413		\$5,783,721	
	Class "A" Common	Consideration	Class "B" Common	Consideration
Balance as at Nov. 20, 1979, after reclassification	2,233,206	\$2,891,860	2,233,207	\$2,891,861
Shares issued for cash	75,000	371,250	—	—
	<u>2,308,206</u>	<u>\$3,263,110</u>	<u>2,233,207</u>	<u>\$2,891,861</u>

(c) Stock Options and Warrants

1) Stock Options

(i) Certain senior employees of the company hold options to purchase 136,000 Class "A" Common Shares and 75,000 Class "B" Common Shares, at prices ranging from \$2.25 to \$6.70 per share. These options are exercisable on various terms and at various times until 1984. In addition to the foregoing, a further 14,000 Class "A" Common Shares are reserved for the granting of options to employees.

(ii) Reference is made to Note 9, Subsequent Events.

2) Warrants

(i) There are outstanding warrants to purchase an aggregate of 1,423,350 Class "A" Common Shares. 700,000 of the warrants are exercisable at any time from June 1, 1980 to December 31, 1980 at a price of \$3.50 per share. The balance of the warrants are exercisable at any time from July 25, 1980 to October 25, 1981 at a price of \$6.87 per share.

(ii) Reference is made to Note 9, Subsequent Events.

(d) Exchange of Class "A" Common Shares for limited partnership units in PanCana - 79

Under the terms of both a limited partnership agreement and a joint venture agreement, the Company is obligated to issue Class "A" Common Shares in exchange for units of participation in the PanCana - 79 drilling program. The number of shares which may be issued under these agreements for each unit is based upon an independent evaluation of the assets of the program and upon the market value of the Class "A" Common Shares at the time of the exchange.

6. - Related Party Transactions

The Company has granted some members of senior management a gross overriding royalty interest in certain oil and gas properties. The Company has also approved, and the Company's shareholders have ratified, the participation by officers and directors for their own account, with the Company in joint venture oil and gas operations. The companies owned and controlled by such officers and directors pay their proportionate share of the costs incurred under the joint venture agreement and only receive their proportionate share of revenues derived from their participation. In the PanCana - 79 Joint Venture the officers and directors participation was 11.4% while in the Pan Cana - 80 Joint Venture it is 10.0%. Shares issued during the year were to some members of senior management.

7. Financial Data by Business Segment

In accordance with recent accounting developments and requirements, the Company is presenting segmented information for the first time by industry as well as geographic segments.

	Geographic Segments		Industry Segments
	Canada	United States	
Revenue			
Oil and gas	\$3,387,888	\$1,540,805	\$ 4,928,693
Geophysical sales and service	1,234,181	—	1,234,181
Equity in earnings of gold mine joint venture	—	283,936	283,936
Corporate			
Land sale	840,642	—	840,642
Drilling funds	323,728	—	323,728
Other	28,550	—	28,550
	<u>\$5,814,989</u>	<u>\$1,824,741</u>	<u>\$ 7,639,730</u>
Contribution to earnings by each segment			
Oil and gas	\$1,569,446	\$ 437,905	\$2,007,351
Geophysical sales and service	310,117	—	310,117
Equity in earnings of gold mine joint venture	—	283,936	283,936
Corporate	334,573	—	334,573
	<u>\$2,214,136</u>	<u>\$ 721,841</u>	<u>2,935,977</u>
			723,589
			1,343,291
			2,066,880
			<u>\$ 869,097</u>

Identifiable assets			
Oil and gas	\$15,785,964	\$4,168,442	\$19,954,406
Geophysical sales and service	311,332	—	311,332
Gold mine	—	876,494	876,494
Corporate	228,521	—	228,521
	<u>\$16,325,817</u>	<u>\$5,044,936</u>	<u>\$21,370,753</u>
Capital expenditures			
Oil and gas	\$2,866,150	\$1,122,151	\$3,988,301
Corporate	58,067	—	58,067
	<u>\$2,924,217</u>	<u>\$1,122,151</u>	<u>\$4,046,368</u>
Depreciation, depletion and amortization			
Oil and gas	\$902,726	\$642,746	\$1,545,472
Geophysical sales and service	3,978	—	3,978
Corporate	44,608	—	44,608
	951,312	642,746	1,594,058
Gold mine	—	400,924	400,924
	<u>\$951,312</u>	<u>\$1,043,670</u>	<u>\$1,994,982</u>

8. Remuneration of Directors and Senior Officers

During the year the aggregate direct remuneration to directors and senior officers, including the five highest paid employees, amounted to \$50,333 to five directors in their capacity as directors and \$541,936 to eight senior officers and employees.

9. Subsequent Events

- (a) By agreement dated October 24, 1980, the Company has issued, by way of private placement, 8% Convertible Subordinated Debentures in the principal amount of \$8,150,000. The Debentures are convertible into Class "A" Common Shares of the Company at \$8.50 per share. Each \$1,000 Debenture has attached warrants to purchase 117.647 Class "A" Common Shares of the Company. The warrants may be exercised at any time from November 10, 1980 to November 10, 1981 at a price of \$7.20 per share, and thereafter until November 10, 1983 at a price of \$8.50 per share.
- (b) On October 2, 1980 The Toronto Stock Exchange allowed an additional 40,000 Class "A" Common Shares to be reserved for the Employee Stock Option Plan.
- (c) Since September 30, 1980 an option for 6,000 Class "A" Common Shares was issued to an employee at a price of \$7.35 per share. The option is exercisable in installments and expires in 1984.

10. Other Information

On January 31, 1980 the Company changed its name from PanCana Industries Ltd. to Pan Cana Resources Ltd.

Certain figures presented for comparative purposes have been reclassified to conform with the current year's presentation.

The 1979 financial statements were reported on by other auditors.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Pan Cana Resources Ltd. as at September 30, 1980 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
December 8, 1980

Pent, Munro, Mitchell & Co.
Chartered Accountants

Corporate Information

Directors

John M. Gareau
President and Chief Executive Officer

Joseph L. Rotman
Chairman of the Board
President of Roy-L Holdings Limited

Duncan J. Jessiman, Q.C.
Barrister and Solicitor: Pitblado & Hoskin

Kendall Jennings
President of Sharon Oil Company Limited

Duncan D. Jessiman
Barrister and Solicitor: Pitblado & Hoskin

Neil L. Jennings
Corporate Secretary

Del F. Zingle, C.A.
Vice President — Finance and Treasurer

Officers

Joseph L. Rotman
Chairman of the Board

John M. Gareau
President and Chief Executive Officer

Ed Chwyl
Vice President — Operations

Kenneth P. Murphy
Vice President — Land

Del F. Zingle, C.A.
Vice President — Finance and Treasurer

Neil L. Jennings
Corporate Secretary

Shares Listed

The Toronto Stock Exchange
(Class "A" and "B" Common Shares)

Annual Meeting

The Annual Meeting of Shareholders of Pan Cana Resources Ltd. will be held in the A and B Meeting Rooms, Mezzanine Level, Bow Valley Square II, 205 Fifth Avenue S.W., Calgary, Alberta, at 10:00 a.m. on Thursday, February 26, 1981.

Legal Counsel

Parlee, Irving, Henning, Mustard & Rodney
Calgary, Alberta

Auditors

Peat, Marwick, Mitchell & Co.
Calgary, Alberta

Bankers

The Royal Bank of Canada, Calgary, Alberta
Midland National Bank, Midland, Texas

Transfer Agent and Registrar

National Trust Company, Limited
Calgary, Montreal, Toronto, Winnipeg, Regina
and Vancouver

Head Office

P.O. Box 9237
500 Bow Valley Square I
202 Sixth Avenue S.W.
Calgary, Alberta
T2P 2W5

Division Offices

Western Electronic Systems
5826 Burbank Road S.E.
Calgary, Alberta T2H 1Z3

PanCana Industries, Inc.
1104 W. Main Street
P.O. Box 988
Elko, Nevada 89801

Admiralty Oil & Gas Ltd.
P.O. Box 9237
500 Bow Valley Square I
202 Sixth Avenue S.W.
Calgary, Alberta T2P 2W5



